

立法會
Legislative Council

LC Paper No. CB(1)335/07-08
(These minutes have been seen
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Ref : CB1/PL/FA/1

Panel on Financial Affairs

**Minutes of special meeting
held on Friday, 12 October 2007 at 11:45 am
in the Chamber of the Legislative Council Building**

- Members present** : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon Ronny TONG Ka-wah, SC (Deputy Chairman)
Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon James TO Kun-sun
Hon Bernard CHAN, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS
Hon CHIM Pui-chung
Hon TAM Heung-man
- Member attending** : Hon WONG Kwok-hing, MH
- Members absent** : Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon SIN Chung-kai, SBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
- Public officers attending** : Agenda Item I
Prof KC CHAN, SBS, JP
Secretary for Financial Services and the Treasury

Mr Alan LAI, GBS, JP
Permanent Secretary for Financial Services and the
Treasury (Treasury)

Mr Kevin HO, JP
Permanent Secretary for Financial Services and the
Treasury (Financial Services)

Clerk in attendance : Miss Polly YEUNG
Chief Council Secretary (1)5

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Ms Rosalind MA
Senior Council Secretary (1)8

Mr Justin TAM
Council Secretary (1)3

Ms Sharon CHAN
Legislative Assistant (1)8

Action

I. Briefing by the Secretary for Financial Services and the Treasury on the relevant policy initiatives featuring in the Chief Executive's 2007-2008 Policy Address

(LC Paper No. CB(1)35/07-08(01) — Paper provided by the Administration

LC Paper No. CB(1)62/07-08(01) — Power-point presentation material provided by the Administration (*tabled at the meeting and soft copy issued to members on 15 October 2007*)

Other relevant documents

Two booklets provided by the Administration

- (a) Address by the Chief Executive at the Legislative Council meeting on 10 October 2007 — "A New Direction for Hong Kong"; and
- (b) The 2007-08 Policy Address — "Policy Agenda".)

Briefing by the Secretary for Financial Services and the Treasury

At the Chairman's invitation, the Secretary for Financial Services and the Treasury (SFST) briefed members on the initiatives relating to the Financial Services and the Treasury Bureau (FSTB) in the Chief Executive (CE)'s Policy Address 2007-2008 and the progress in implementing the relevant on-going policy initiatives. SFST advised that the Administration would continue to implement policy initiatives and supportive measures to consolidate Hong Kong's position as an international financial centre (IFC) and position Hong Kong as the IFC of China. SFST highlighted the progress and upcoming plans under the purview of financial services as follows-

(a) Promoting market development

- (i) advancing financial services cooperation with the Mainland to develop a mutually-assisting, complementary and interactive relationship between the financial systems of the two places under the blueprint of the Action Agenda proposed by the Focus Group on Financial Services under the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong" (the Action Agenda);
- (ii) expanding Renminbi (RMB) business in Hong Kong in collaboration with the relevant Mainland authorities;
- (iii) developing Hong Kong's commodities futures market to cope with the increasing Mainland demand for risk management in respect of commodity prices;
- (iv) promoting asset management business with a view to enhancing Hong Kong's position as a major asset management centre in Asia, leveraging on the rapid economic growth in the Asia Pacific region, the continual accumulation of savings in the Mainland and further liberalization measures of the Qualified Domestic Investors Scheme;
- (v) developing the Islamic bond market through establishing a local platform for Islamic finance to enable Hong Kong to tap the opportunities offered by the growth of the Islamic financial services industry;
- (vi) promoting Hong Kong as a preferred listing venue for enterprises incorporated in other jurisdictions in order to broaden the source of listed companies and attract quality overseas companies to seek listing in Hong Kong; and

- (vii) showcasing and enhancing Hong Kong's position as an IFC through activities such as the Asian Financial Forum held on 21 September 2007 and FSTB's plan of leading financial services delegations to visit selected cities in the Mainland and Asia.

(b) Improving market quality

- (i) Major initiatives to enhance the regulatory regime in the financial market included the drafting of legislative amendments to strengthen enforcement of the Mandatory Provident Fund (MPF) System, commissioning a consultancy study on the setting up of an independent Insurance Authority, taking forward the rewrite exercise of the Companies Ordinance (CO) (Cap. 32), and commencing a review of the Trustee Ordinance (Cap. 29) to strengthen the competitiveness of Hong Kong's trust services industry.
- (ii) On efforts to enhance investor protection, the Securities and Futures Commission (SFC) would continue to implement its proactive investor education initiatives to raise investors' awareness of their rights and the benefits and risks of investing. SFC was also exploring ways of utilizing part of its levy income to further enhance investor protection and education. Moreover, the Mandatory Provident Fund Schemes Authority (MPFA) had been making continuous efforts to facilitate scheme members in making more informed investment decisions. The Administration was consulting the Department of Justice on MPFA's framework proposal for legislative amendments to allow employees to transfer accrued benefits derived from employees' mandatory contributions to a MPF scheme of their own choice. It would follow up with MPFA on the details and rationale of the proposal as a matter of priority.

2. Under the other purview of the Government's fiscal policy and the management of public finances, SFST said that the Administration endeavoured to maintain fiscal balance in line with the principle of keeping expenditure within the limits of revenue, with the target to contain public expenditure below 20% of the Gross Domestic Product (GDP). To address the strong calls from different sectors of the community to alleviate their tax burden, the standard rate of salaries tax would be reduced to 15% and corporate profits tax rate, to 16.5% in 2008-2009. If the economy continued to grow and financial conditions allowed, the Government would explore the possibility of proposing further cut in corporate profits tax rate in future financial years. In addition, Rates for the last quarter of the current financial year would also be waived, subject to a ceiling of \$5,000 for each rateable tenement.

Discussion

Promoting and developing the financial markets of Hong Kong

3. Referring to the discussion at the special Panel meeting on 9 October 2007 on the Government's increased acquisition of shares in the Hong Kong Exchanges and Clearing Limited (HKEx), Mr Albert HO was concerned that the Administration had failed to provide detailed explanation to address members' questions on why and in what ways the increased acquisition would enable the Government to contribute to HKEx's strategic development in the longer term, in particular in pursuing initiatives under the Action Agenda.

4. In reply, SFST recapped that as advised by the Financial Secretary (FS) at the special meeting on 9 October 2007, the increased shareholding of HKEx aimed at enabling the Government to contribute as a shareholder to HKEx's development and to the development of the financial markets. This could be carried out at different levels. At the level of the Exchanges, consideration might be given to pursuing cooperation with Exchanges in the Mainland for development of the commodities futures market. On whether the Government would disclose its shareholdings in listed companies to increase transparency, SFST advised that the Government would make appropriate disclosure in view of relevant statutory requirements and in line with standard market practice.

5. Referring to the policy initiative on broadening the source of corporations using Hong Kong as a platform for listing, Mr Bernard CHAN enquired about the concrete measures in this regard. Mr CHAN pointed out that Hong Kong had, in the past few years, developed into a major capital formation centre and listing platform for Mainland corporations, with Mainland corporations constituted about 40% of the listed companies. To avoid being perceived by overseas investors as a listing venue for Mainland enterprises only, the Administration should spare no efforts to attract overseas corporations to seek listing in Hong Kong.

6. In response, SFST said that Hong Kong had a competitive edge over other Asian markets in positioning itself as the major listing platform for Mainland enterprises. Having said that, the Administration was keenly aware of the need to broaden the source of listed companies for strengthening Hong Kong's established role as an IFC and had been actively following up the recommendations in the Action Agenda in collaboration with SFC and HKEx. In this connection, SFC and HKEx had published a joint policy statement in March 2007 to facilitate overseas companies seeking a primary listing in Hong Kong. Moreover, HKEx had been stepping up promotional efforts through organizing activities such as joint roadshows with the Trade Development Council. FSTB had also led delegations to different places to promote Hong Kong as a preferred listing venue. As to Mr Bernard CHAN's concern that promotional efforts should be further strengthened to convey Hong Kong's commitment to broadening the source of listed companies, SFST took note of his view and advised that the Administration would continue its work in this regard.

7. Mr WONG Ting-kwong noted with interest the Administration's plan to develop the Islamic bond market, which was quite a new initiative to the investing

public. He enquired whether this initiative would give rise to any concern about money laundering or terrorist financing. In response, SFST advised that Islamic financial services and instruments were those that complied with the restrictions and prohibitions imposed by the Islamic law (such as restrictions on investment in interest-generating or high risk financial products). In the light of the economic development in the Middle East, the Islamic financial services industry could offer increasing opportunities with huge potentials for development. Given its developed financial markets, Hong Kong could tap such new opportunities by establishing and developing a local platform for Islamic finance. He further pointed out that the development of the Islamic bond market should not be considered in association with concerns about money laundering or terrorist financing as the latter issues were subject to a separate effective regulatory mechanism.

8. Referring to the policy initiative of developing Hong Kong's commodities futures market, the Chairman recalled that the Democratic Alliance for the Betterment and Progress of Hong Kong had submitted to the Administration a proposal on the development of a petroleum futures market in Hong Kong and enquired about the progress of any new initiative so far. In reply, SFST advised that the development of the commodities futures market had been included in the Action Agenda. In this connection, the consultancy commissioned by HKEx to study the feasibility of developing a commodities futures market in Hong Kong was underway. The Administration looked forward to further examining the subject when the findings of the consultancy were available.

9. Mr CHIM Pui-chung considered that given the large increase in levies collected by SFC and HKEx as a result of the recent surge in the volume of securities and futures transactions, the Administration should critically review the levies charged by the two regulators, such as requesting them to consider the possibility of reducing or abolishing the levies to relieve the financial burden on the financial services industry. In response, SFST remarked that the financial services industry had also benefited from the large volume of transactions in the robust financial markets. He nevertheless pointed out that transaction volumes were subject to fluctuations in the light of market conditions and might not always be maintained at a high level. It was therefore not prudent to make changes to the existing levying arrangements in a hasty manner. Meanwhile, the Administration had been encouraging SFC to utilize its surplus in areas like strengthening investor education.

Enhancing corporate governance and cooperation with the Mainland

10. Mr Ronny TONG was concerned that with the increasing number of Mainland companies listed in Hong Kong, the Administration should put in place measures to ensure a high standard of corporate governance among listed companies on par with best international standard. Ms Emily LAU expressed similar concern and sought the Administration's comments on whether the large number of Mainland companies listed in Hong Kong had any impact on the standard of corporate governance in Hong Kong.

11. In response, SFST confirmed that companies listed in Hong Kong, irrespective of whether they were incorporated in Hong Kong or in other places, were subject to the same regulatory requirements under CO, other applicable legislation and the Listing Rules. On the Administration's commitment to enhancing the standard of corporate governance in Hong Kong, SFST advised that the Financial Reporting Council, which had recently commenced operation, was tasked to upgrade the quality of financial reporting of locally listed companies and enhance corporate governance. Corporate governance would also be enhanced as a result of the CO rewrite exercise which was in progress. The Permanent Secretary for Financial Services and the Treasury (Financial Services) supplemented that the CO rewrite exercise aimed to modernize Hong Kong's company law as well as to enhance corporate governance. To engage relevant stakeholders at an early stage, four Advisory Groups comprising members from the relevant industry and professional bodies had been formed to advise on specific areas of CO. The first topical consultation exercise on proposals to improve the accounting and auditing provisions had ended in late June 2007 and the Administration was studying the public responses received.

12. Given the large number of Mainland corporations listed in Hong Kong, Mr James TO was concerned about the need to step up cooperation with the Mainland authorities in taking regulatory and enforcement actions. Pointing out that the regulatory framework in the Mainland was relatively less developed and that the financial systems in Hong Kong and the Mainland were different, Mr TO doubted the extent to which regulatory requirements were complied with and enforcement actions taken in cases involving Mainland corporations listed in Hong Kong. He was of the view that Hong Kong could contribute to the development of the nation through helping to upgrade the Mainland's regulatory standard in respect of listing to meet the international standard and urged the Administration to formulate concrete measures in this respect.

13. In reply, SFST advised that companies incorporated in other jurisdictions and listed in Hong Kong were subject to the Listing Rules, and that operations of the local financial markets were governed by the statutory regulatory regime enshrined in the Securities and Futures Ordinance (Cap. 571) and other applicable legislation. SFC would however have to rely on the assistance of the authorities in the places concerned in taking enforcement actions. SFC had strengthened cooperation with the China Securities Regulatory Commission (CSRC) to facilitate regulatory actions. The cooperation between SFC and CSRC was further enhanced through the Multilateral Memorandum of Understanding of the International Organization of Securities Commission to which CSRC had recently become a signatory. In April 2007, SFC and CSRC entered into an improved enforcement cooperation arrangement under which CSRC could assist SFC by compelling assistance from people and entities on the Mainland from whom SFC needed information. SFST assured members that the Administration was keenly aware of the importance of cooperation with the relevant authorities in the Mainland and would continue to work with the authorities concerned to this end. At the request of Mr James TO, SFST agreed to provide further information on the number and details (where practicable)

of cases in which assistance had been sought from CSRC under the improved cooperation arrangement introduced in April 2007.

(Post-meeting note: The information requested in paragraph 13 above was circulated to member vide LC Paper No. CB(1)192/07-08 on 2 November 2007.)

Mandatory Provident Fund System

14. While commending efforts of MPFA and the Administration for developing the proposal to allow employees to transfer accrued benefits derived from their mandatory contributions to an MPF scheme of their own choice, Mr WONG Kwok-hing expressed concern about the timeframe for the Administration to introduce the legislative proposal to the Legislative Council (LegCo) and urged the Administration to expedite work in this regard. In reply, SFST said that the Administration was actively examining MPFA's framework proposal. He nevertheless pointed out that given the complexity and the range of issues to be resolved, such as the administrative costs incurred on the part of the employers and whether transfer of accrued benefits derived from mandatory contributions other than those of the employees should be allowed, the Administration would have to take some time to finalize the proposal for consultation with LegCo.

15. Mr Andrew LEUNG opined that notwithstanding efforts of MPFA in increasing the transparency of fees and charges of MPF funds and the lowering of fees and charges announced by some MPF trustees in the recent months, the level of fees and charges was still on the high side compared with the global standard. Mr LEUNG was concerned about measures to be implemented in the near future to facilitate transparency of MFP funds and to achieve further lowering of fees and charges for the benefit of scheme members.

16. SFST said that MPFA had been making continuous efforts to lower the fees and charges to a reasonable level through promoting transparency of fees and charges, enhancing market competition and other measures such as preparation of a proposal to increase employees' control over their MPF investments. He nevertheless pointed out that given the differences in system designs and the operation costs involved, fees and charges of the MPF funds in Hong Kong could not be directly compared to those of provident funds in overseas jurisdictions.

Maintaining currency stability

17. In light of recent weakening of the US dollar which had resulted in the depreciation of Hong Kong dollar under the Link Exchange Rate (LER) System, Mr CHIM Pui-chung opined that the Administration should review the existing arrangement of using US dollar as the anchoring currency. Mr CHIM was of the view that RMB might be a suitable anchor for the Hong Kong dollar as it was becoming more widely accepted in the international market and the RMB exchange

rate was of concern to many small and medium enterprises of Hong Kong as they were operating their businesses in the Mainland.

18. SFST confirmed that the Administration had no plan to change the current anchoring arrangement under the LER System which had been functioning effectively in supporting the financial development and in building up investors' confidence in a small and open economy like Hong Kong. As to Mr CHIM Pui-chung's view that the current arrangement of appointing the Chief Executive of the Hong Kong Monetary Authority without a specified tenure of office should be critically re-examined, SFST said that he was not in a position to comment on the subject.

Management of public finances

19. Mr WONG Kwok-hing expressed disappointment about the proposed tax relief measures announced in the 2007-2008 Policy Address, i.e. reduction in the standard rate of salaries tax and corporate profits tax rate. He opined that these measures were inconsistent with the principle of "vertical fairness" and would not alleviate the hardship of low-income groups or reduce the wealth gap. Mr WONG urged the Government to respond to calls of the community to reduce their tax burden by increasing the personal allowance for salaries tax to the 2002-2003 level so that lower-income employees would not be caught in the tax net.

20. In response, SFST advised that the salaries tax and corporate profits tax rates reductions had been proposed to address the strong calls from different sectors of the community to lessen their tax burden. Views on other tax relief measures would be taken into account in FS's Budget consultation commencing in November 2007. SFST said that apart from tax relief measures, the Policy Address had put forward various measures to address the needs and alleviate the hardship of low-income groups.

21. Mr Andrew LEUNG welcomed the reductions in the standard rate of salaries tax and the rate of corporate profits tax. Referring to CE's remark at a radio programme that he could not guarantee that the tax rates would not be increased during his term of office, Mr LEUNG was concerned that the Government might decide to increase revenue through tax increases to meet the expenditure for implementing the large-scale infrastructure projects within CE's current term of office. He was of the view that a taxation policy without certainty on changes in tax rates was not conducive to inspiring investors' confidence.

22. In response, SFST said that the tax reductions were one of the undertakings given by CE during his election campaign. Despite the revenue foregone in such reductions, the Administration would still be in a position to fund the infrastructure projects in the coming years. He assured members that the Administration would continue to manage public finances prudently and keep expenditure within the revenue limits. The Administration was keenly aware of the importance of certainty

and consistency in policies and would take forward changes, if any, in taxation policy only in a gradual manner having regard to prevailing financial conditions.

23. Miss TAM Heung-man was concerned about the challenges faced by the Government in maintaining fiscal balance in light of reduced revenue resulting from tax reductions and increased public expenditure on policy areas such as education and social welfare. Noting that the community had generally recognized the problem of a narrow tax base in Hong Kong during the public consultation on tax reform ended in March 2007, Miss TAM enquired about the Administration's measures, if any, to broaden the tax base so as to balance public expenditure and government revenue in the long run.

24. SFST reiterated that maintaining fiscal balance in the long run was the Government's objective in the management of public finances. The Government would continue to strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of GDP. In taking forward the various initiatives announced in the Policy Address, the Government would uphold the principle of keeping expenditure within the limits of revenue. As to Miss TAM Heung-man's view on the problem of a narrow tax base, SFST said that the Administration was aware of this long-existing problem which had also been recognized by the community as an issue which needed to be addressed. Whilst public views gathered during the public consultation on tax reform indicated that it was not an appropriate time for introduction of new taxes to broaden the tax base, the Administration would continue to study tax options and formulate measures to address the problem, where appropriate.

Measures to alleviate the impact of inflation

25. As the LER System had ruled out the use of nominal exchange rate movements as a mechanism for adjustment, Miss TAM Heung-man was concerned whether there were measures to minimize the adverse impact resulting from inflation, such as negative deposit interest rates and asset bubbles. In reply, SFST pointed out that the scope of measures which could be undertaken by the Government to contain inflation was to a certain extent limited under the LER System, leaving very little room for an autonomous interest rate policy. He nevertheless reiterated that the Administration had introduced appropriate measures to alleviate the possible impact of inflation on the livelihood of the community at large, one recent example being the rates waiver announced in the 2007-2008 Policy Address.

26. Mr Ronny TONG did not subscribe fully to SFST's response which seemed to suggest that the Administration was helpless in the face of inflation. Mr TONG pointed out that inflation would increase the cost of living and adversely affect the livelihood of the middle and lower income groups. Noting that CE had announced in his Policy Address the plan to expedite implementation of 10 large-scale infrastructure projects, Mr TONG was gravely concerned that public expenditure on these projects would further aggravate inflationary pressure. He therefore urged the

Administration to draw up measures to alleviate the adverse impact of inflation on the community.

27. In clarification, SFST said that his response to Miss TAM Heung-man should not be taken to imply that the Government was helpless in tackling the problems associated with inflation. SFST advised that according to the Administration's assessment, the additional expenditure arising from the initiatives in the Policy Address would only constitute a small percentage of GDP and should not bring about any significant inflationary pressure. On the other hand, it was anticipated that the implementation of the large-scale infrastructure projects would create employment opportunities for the construction industry, thereby alleviating the hardship of the some 20 000 unemployed and some 30 000 underemployed workers in the industry. The infrastructure projects would boost economic activities and bring about economic benefits to Hong Kong as a whole in the longer term.

28. Mr Ronny TONG maintained the view that the Administration's plan to push ahead 10 large-scale infrastructure projects in the coming few years would incur huge public expenditure and intensify inflation. In this connection, SFST considered that a number of other factors would also contribute to inflation in an economy. The public expenditure incurred in the infrastructure projects in question which would be implemented over a number of years was not expected to have any significant impact on inflation in Hong Kong.

II. Any other business

29. There being no other business, the meeting ended at 12:53 pm.